Government of Saskatchewan

Annual Report 2003-2004

Saskatchewan Industry and Resources

Oil and Gas Environmental Fund

Saskatchewan Centennial 2005

Letters of Transmittal

105-00088/

The Honourable Lynda Haverstock
Lieutenant Governor
Province of Saskatchewan

May it please Your Honour:

I respectfully submit the Annual Report and Financial Statements of the Oil and Gas Environmental Fund for the fiscal year ending March 31, 2004.

Eric Cline, Q.C.
Minister of Industry and Resources

The Honourable Eric Cline, Q.C.
Minister of Industry and Resources

Dear Sir:

I have the honour of submitting the Annual Report and Financial Statements of the Oil and Gas Environmental Fund for the fiscal year ending March 31, 2004.

Respectfully submitted,

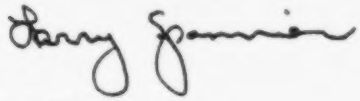
Larry Spannier
Deputy Minister
Industry and Resources

Management's Responsibility for Financial Statements

The accompanying financial statements included in the annual report of the Oil and Gas Environmental Fund for the year ended March 31, 2004, are the responsibility of management of the Department of Industry and Resources. Management has prepared the financial statements in accordance with Canadian generally accepted accounting principles. The financial information presented elsewhere in the annual report is consistent with that in the financial statements.

To ensure the integrity and objectivity of the financial data, management maintains a comprehensive system of internal controls including written policies and procedures, and an organizational structure that segregates duties. These measures provide reasonable assurance that transactions are recorded and executed in compliance with legislation and required authority, that assets are properly safeguarded, and that reliable financial records are maintained.

The financial statements have been audited by the Office of the Provincial Auditor. Their report to the Members of the Legislative Assembly, stating the scope of their examination and opinion on the financial statements, appears on page four.



Larry Spannier
Deputy Minister
Industry and Resources

Regina, Saskatchewan
July 4, 2004

Introduction

The Oil and Gas Environmental Fund was established by the Government of Saskatchewan in 1989 to replace an outdated well deposit system and to provide the government with a means to address unique oil- and gas-related environmental problems.

The legislative authority for the fund and the specific provisions of the fund are found in *The Oil and Gas Conservation Act* and the regulations thereunder.

The fund is administered by Saskatchewan Industry and Resources.

Program Purpose

The fund guarantees the proper drilling, completion and abandonment of wells, including surface restoration. The fund also allows the government to respond to a major spill or environmental problem when liability for the problem cannot initially be determined.

The following amounts are designated for deposit to the fund:

- a one-time assessment of $100 per well in existence as of May 1989, to a maximum of $20,000 per company;
- all deposits, held pursuant to the old well deposit system, which were not claimed within one year following the date of introduction of the Oil and Gas Environmental Fund;
- all interest and dividends received on loans and investments of the fund;
- all gains on disposal of securities in which any part of the fund has been invested;
- moneys recovered from a company for any moneys expended for work or activity the company would be responsible to perform, and moneys recovered from the disposal of any equipment or material left by the company at the well site; and
- where the moneys on deposit are insufficient, $100 of each well licence application fee may be directed to the fund.

When all other remedies have been exhausted or an emergency exists, moneys may be expended from the fund for the following purposes:

- conducting or completing the abandonment and surface restoration of a well, structure test hole, oil shale core hole or related facility that has been left incomplete by the insolvency or disappearance of the owner or operator; and
- containment, clean-up and surface restoration of a problem that is a major environmental problem that arises from oil or gas exploration, development, production or transportation operations.

The expenditure of moneys from the fund for any of the purposes described above does not relieve the owner or operator of the responsibility to maintain the well, well site, structure test hole, structure test hole site, oil shale core hole, oil shale core hole site or related facility in compliance with the act and the regulations and orders made pursuant to the act.

The minister may recover from the owner or operator any moneys expended for any work or activity that the owner or operator would be responsible to perform. The minister may take possession and dispose of any equipment or material left by the owner or operator at the well, structure test hole or oil shale core hole.

Program Activities

During the 2003-04 fiscal year, the fund had no expenditures to report for well abandonment and surface restoration of wells. All proposed work was deferred until regulatory changes required under *Bill No. 10 - The Oil and Gas Conservation Amendment Act*, are completed.

Auditor's Report

To the Members of the Legislative Assembly
of Saskatchewan

I have audited the balance sheet of the Oil and Gas Environmental Fund as at March 31, 2004, and the statement of revenue, expenditure and net assets for the year then ended. The fund's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the fund as at March 31, 2004, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred Wendel, CMA, CA
Provincial Auditor
Regina, Saskatchewan
June 16, 2004

Statement 1

Oil and Gas Environmental Fund
Balance Sheet
As at March 31

	2004	2003
Assets		
Due from General Revenue Fund (Note 5)	$ 2,778,599	$ 2,702,392
Fund Balance		
Net Assets (Statement 2) (Note 4)	$ 2,778,599	$ 2,702,392

(See accompanying notes to the financial statements)

Statement 2

Oil and Gas Environmental Fund
Statement of Revenue, Expenditure and Net Assets
Year Ended March 31

	Budget	Actual	
	2004 (Note 6)	2004	2003
Revenue:			
Interest (Note 5)	$ 94,584	$ 76,207	$ 69,545
Total Revenue	94,584	76,207	69,545
Expenditure:			
Abandonment & Reclamation	200,000	----	----
Tender Costs	2,000	----	----
Total Expenditure	202,000	----	----
Excess of revenue over expenditure		$ 76,207	$ 69,545
Net Assets, beginning of year		2,702,392	2,632,847
Net Assets, end of year – to Statement 1		$ 2,778,599	$ 2,702,392

(See accompanying notes to the financial statements)

Oil and Gas Environmental Fund
Notes to the Financial Statements
March 31, 2004

1. Authority

The Oil and Gas Environmental Fund was established on May 17, 1989, pursuant to Section 18.2 of *The Oil and Gas Conservation Regulations, 1985* (Regulations). The purpose of the fund is to provide a mechanism to respond adequately to environmental problems associated with the exploration, development, production and transportation of oil and gas. The fund originated through a one-time assessment of $100 per well to a maximum of $20,000 per operator.

2. Significant Accounting Policies

These financial statements are prepared in accordance with Canadian generally accepted accounting principles.

3. Statement of Cash Flows

A cash flow statement has not been provided as the cash flow information is readily apparent from the financial statements.

4. Net Assets

The net assets represent assessments raised in accordance with subsection 18.3(2) of the Regulations less well site restoration costs. The net assets, together with any future recoveries of well site restoration costs, are available to provide for expenditures under Section 18.4 of the Regulations related to the:

a) abandonment of wells and restoration of abandoned well sites, as a result of disappearance or insolvency of the well owner or operator.

b) containment or clean-up of major environmental problems arising from oil and gas exploration, development, production or transportation operations.

5. Related Party Transactions

Included in these financial statements are transactions with the government departments and agencies related to the fund by virtue of common control by the Government of Saskatchewan.

The fund's money is on deposit with the General Revenue Fund (GRF). The GRF calculates and pays interest on a quarterly basis using the government's 30-day borrowing rate and the fund's average daily account balance. The government's average 30-day borrowing rate in 2003-04 was 2.79% (2002-03 was 2.62%).

The fund has not been charged with any administrative costs and no provision for such costs is reflected in these statements. These costs are borne by the Department of Industry and Resources.

6. Budget

The budget for the fund is included with the Department of Industry and Resources' budget submission to Treasury Board. Treasury Board approves the fund's budget annually.

7. Oil and Gas Orphan Fund

In June 2001, the Legislative Assembly passed *The Oil and Gas Conservation Amendment Act, 2001* amending *The Oil and Gas Conservation Act*. This provides the framework for a more comprehensive program to address the issue of abandonment of wells, decommissioning of facilities, and clean-up of those wells and facilities where the obligations of the person responsible for carrying out those activities are not being met. Part of this comprehensive program involves the conversion of the existing Oil and Gas Environmental Fund to the Oil and Gas Orphan Fund.

As of March 31, 2004, Section 13 of *The Oil and Gas Conservation Amendment Act, 2001*, which converts the Oil and Gas Environmental Fund to the Oil and Gas Orphan Fund, had not been proclaimed.